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Sam Wilson  
Department of Ecology  
P.O. Box 47600, Olympia, WA 98504-7600

RE: Comments of 3Degrees, Inc. on Chapter 173-442 WAC, Clean Air  
Draft Proposal

Thank you for the opportunity to comment on Washington Department of Ecology's ("Ecology") draft proposal of the Clean Air Rule. 3Degrees commends Governor Inslee and Ecology for their leadership on the important policy goals of reducing carbon emissions and increasing clean energy generation.

3Degrees is keenly interested in the final version of the Clean Air Rule because the company is one of the largest buyers and sellers of Renewable Energy Credits ("RECs") in the country and is particularly active in REC markets in the Pacific Northwest.

Washington is one of 36 U.S. states and territories that use RECs to track and transact renewable electricity on the grid. The scale of the overall REC market in Washington State is significant and merits careful consideration by policy makers; for instance, in 2016, 3Degrees estimates that over 4 million RECs from Washington state generators will be sold to either the voluntary market or into neighboring states for RPS compliance.<sup>1</sup> These REC sales directly support Washington-sited renewable energy generation.

Voluntary market customers include residential and large commercial buyers in Washington state and across the country. Without exception, 3Degrees' customers purchase RECs to acquire both the emissions attributes and renewable characteristics renewable energy generation. The value of these RECs - both for voluntary buyers and as a regulated instrument in compliance markets - depends upon policies that support rigorous REC tracking and retirement processes to prevent double crediting and maintain the environmental integrity of the renewable energy market. A bedrock principle is that only the owner of the REC has

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<sup>1</sup> Based on publicly available information including: Washington state RPS compliance reports, EIA generator data, and Green-e Product Content Labels



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the legal right to claim the renewable attributes. This is the reason RECs exist: to track, allocate, and match a specific MWh of renewable energy generation to a specific purchaser.

3Degrees applauds Ecology for responding to input about previous drafts of the Clean Air Rule by creating the reserve account, which is intended in part to ensure that new voluntary green power and compliance-driven REC sales to other states remain additional to Washington's emissions reductions under CAR. This has the potential to be an important new component of the rule; with a properly structured reserve account, double crediting of carbon reduction benefits may be eliminated. As drafted however, 3Degrees has concerns about the integrity and adequacy of the reserve account.

### **Integrity**

Double crediting of carbon benefits can occur within the bounds of the proposed rules when energy from a new renewable energy facility is counted toward reduction of the smokestack emissions from a regulated entity, while the same energy production also generates an Emission Reduction Unit ("ERUs") used to charge the reserve account.

Double crediting can also occur when energy from a new renewable energy facility is counted toward reducing a regulated entities smokestack emissions while the same energy generates RECs that are sold for the voluntary market or other compliance purposes either inside or outside Washington State.

To address this problem, 3Degrees recommends that ERUs in the reserve account retired on behalf of the voluntary REC market or REC-based compliance markets in other states need to come from or directly result in a reduction in the emissions cap for covered parties. These ERUs must come from energy generated at facilities that have not been included in regulated entities' emissions profile. This will ensure Washington-generated RECs maintain their core value to the market--the right for purchasers to claim a reduction in their own emissions.

### **Adequacy**

The Clean Air Rule proposes six priorities for withdraws and retirements from the reserve account; this raises the very real possibility that the account may not be sufficient to allocate the necessary ERUs to all six of the stated priorities. In addition REC sales to compliance markets in other states are not currently included as one of the priorities for retiring ERUs



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from the reserve fund, further increasing the likelihood that the reserve fund as envisioned is too small.

To address the potential limits of reserve account, 3Degrees recommends:

- Explicitly stating that the adequacy of the reserve account will be assessed each year, based on the latest market information about incremental growth in voluntary green power markets and compliance-driven REC sales in Washington and to other states.
- No prioritization for the list of uses for the reserve account - instead, make clear that all needs will be met.

We appreciate the opportunity to provide these comments to Ecology as the Department seeks to ensure the Clean Air Rule is as effective as possible. Ensuring the integrity and adequacy of reserve account will advance Ecology's goals of ensuring carbon reductions are real and additional to reductions from new renewable energy facilities built to meet compliance and voluntary market needs. We believe this is possible through careful design choices and we appreciate the opportunity to suggest recommendations.

Respectfully,

Adam Capage  
Vice President, 3Degrees